

# **Earnings Briefing**

## **For Fiscal Year Ended March 2006**

**Kenwood Corporation**  
**May 2006**

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### **AGENDA**

- 1. Highlights of Full Year Operating Results for FYE'06/3**
- 2. Full Year Operating Results for FYE'06/3**
- 3. Management Strategies for FYE'06/3**
- 4. Full Year Outlook for FYE'07/3**
- 5. Management Strategies for FYE'07/3**

#### **Disclaimer**

Forward-looking statements and charts contained in our documents are based on currently available information. Actual results may significantly differ from projected figures depending on various factors.

#### **Abbreviation in this report**

CE :	Car Electronics	FY :	Fiscal Year
COM :	Communications	FYE :	Fiscal Year Ended or Ending
HE :	Home Electronics		

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# 1. Highlights of Full Year Operating Results for FYE'06/3

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## 1. Highlights of Full Year Operating Results for FYE'06/3

### (1) Summary of FYE'06/3;

**Net Income is the second highest in past**

* Net Sales	Slight increase (JPY183.6 billion, +1.4%)
* Operating Profit	Significant increase (JPY8.7 billion, +23.0%)
* Ordinary Income	Slight increase (JPY4.9 billion, +4.0%)
* Net Income	Significant increase (JPY6.1 billion, +26.2%)

(JPY in Billion)

	FYE'05/3	FYE'06/3	YoY
Net Sales	181.1	183.6	101.4%
Operating Profit	7.1	8.7	123.0%
Ordinary Income	4.7	4.9	104.0%
Net Income	4.8	6.1	126.2%

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## 1. Highlights of Full Year Operating Results for FYE'06/3

### (2) Structural Reforms Progressed as Planned with a Sharp YOY Increase in Earnings

#### (a) Completed Reforms on Financial Base and Capital Structure Initiated on FYE'03/3

- \* Redemption of all preferred stocks
- \* Dividend resumed (An annual dividend of 2 yen and dividend of 1 yen to commemorate the resumption of dividends in the previous FY)
- \* Effectively achieved "Zero Net Debt," "ROE of 20%," and "Interest-bearing liabilities of JPY30 billion or less";  
And joined the "Billion Dollar Club" (with an aggregate market value of JPY100.3 billion as of the end of the FYE'06/3)



An annual dividend of 2 yen, which is the same amount as the  
previous FY

## 1. Highlights of Full Year Operating Results for FYE'06/3

### (2) Structural Reforms Progressed as Planned with a Sharp YOY increase in Earnings

#### (b) Reforms of Profit Structure Progress as Planned

- \* CE Consumer (Multimedia) business  
Strategy change for car navigation systems in Japan and abroad
- \* HE business  
Measures on unprofitable business and reduction of fixed costs
- \* CE OEM business  
Expansion of Shanghai Plant and completion of transfer of production from Japan (contributing to earnings from FYE'07/3)
- \* COM business  
Reinforcement of wireless radio equipment business

## 1. Highlights of Full Year Operating Results for FYE'06/3

### (2) Structural Reforms Progressed as Planned with a Sharp YOY increase in Earnings

#### (c) Pension Assets Returned to the Government and Elimination of Negative Legacy Completed

- \* Impairment and sales of fixed assets (Zama, Akiruno)
- \* Disposal of assets in step with strategy change for car navigation systems and HE business
- \* Treatment of carry-forward losses of foreign sales subsidiaries and liquidation of unprofitable subsidiaries (the U.S. outlets, etc.)

## 1. Highlights of Full Year Operating Results for FYE'06/3

### (3) Operating Profit Fell Slightly Short of the Plan due to Unexpected Negative Factors

#### Negative factors:

- \* CE Consumer: Intensified competition and falling prices in audio systems; rapid diffusion of portable navigation systems
- \* CE OEM: Increased upfront investments; expanded sales of unprofitable models
- \* HE: Radical change in conventional mass-sales audio market in Japan caused

#### Positive factors:

- \* COM: Development of products that match needs; increased demand; foreign exchange



**"Investments in Strategic Development" in the FYE'07/3 to Achieve the Goals of the Second Mid-term Business Plan**

## 2. Full Year Operating Results for FYE'06/3

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### 2. Full Year Operating Results for FYE'06/3 Consolidated Profit & Loss

- Net Sales;** Increase (two years in row) of 1.4% (increase of JPY2.5 billion) compared to the previous FY
- Operating Profit;** Significant increase of 23.0% (increase of JPY1.6 billion) compared to the previous FY
- Ordinary Income;** Increase of 4.0% (increase of JPY0.2 billion) compared to the previous FY
- Net Income;** Significant increase of 26.2% (increase of JPY1.3 billion) compared to the previous FY; **the second highest in past**

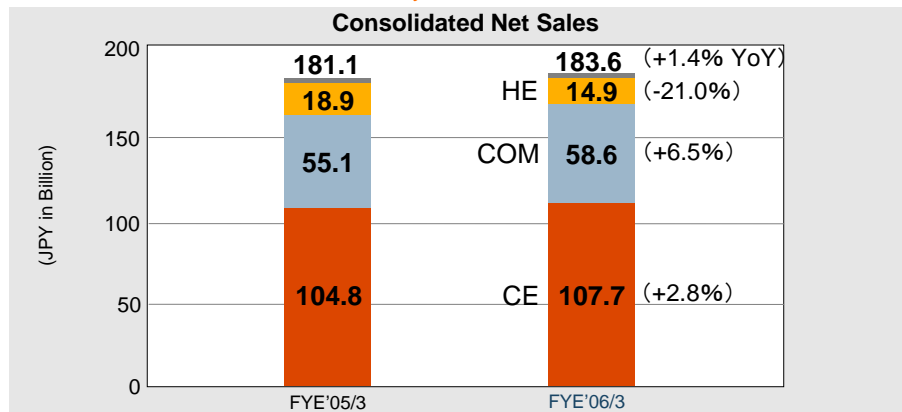
Consolidated PL	FYE'05/3		FYE'06/3		YoY	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net Sales	181.1		183.6		2.5	101.4%
Operating Profit	7.1	3.9%	8.7	4.7%	1.6	123.0%
Ordinary Income	4.7	2.6%	4.9	2.7%	0.2	104.0%
Net Income	4.8	2.7%	6.1	3.3%	1.3	126.2%

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## 2. Full Year Operating Results for FYE'06/3

### Consolidated Net Sales

- \* Sales of **CE OEM** and **COM** were increased
- \* Sales of the **CE Consumer (Audio)** improved compared with the previous FY amid the continuous shrinkage of the market
- \* Sales of the **CE Consumer (Multimedia)** and **HE** tentatively decreased due to the strategy change made in prior FY
- ▶ Consolidated sales of the entire group increased 1.4% from the previous FY, increased sales for two consecutive years

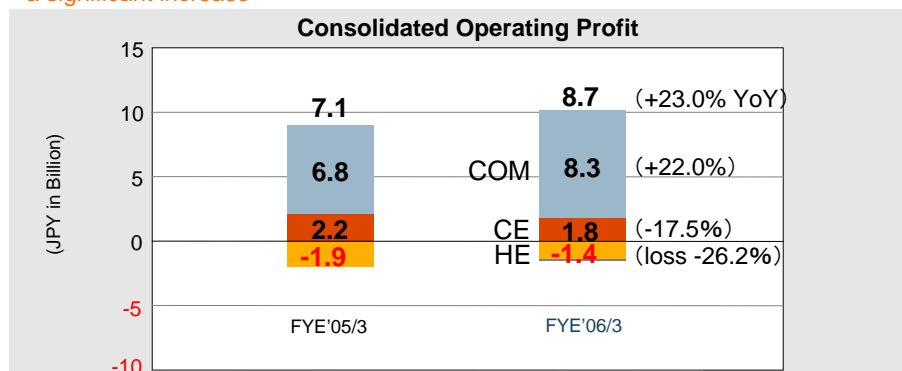


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## 2. Full Year Operating Results for FYE'06/3

### Consolidated Operating Profit

- \* Profit of **CE OEM** decreased due to an increase in up-front investments for future business expansion and increased sales of unprofitable products
- \* Profit of **CE Consumer (Audio)** decreased from the previous FY due to effects of the market trends
- \* These factors for a tentative decrease in profit were offset by increased profit of **COM** and improved profit of **CE Consumer (Multimedia)** and **HE**
- ▶ Consolidated profit of the entire group increased 23.0 % from the previous FY, a significant increase

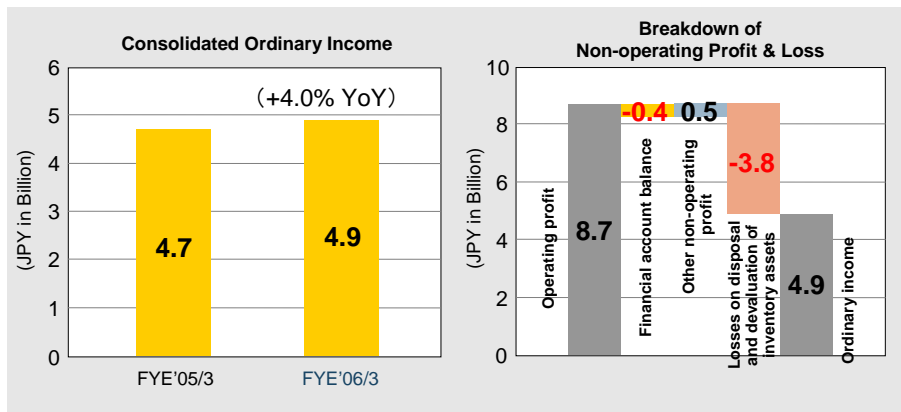


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## 2. Full Year Operating Results for FYE'06/3

### Consolidated Ordinary Income

- \* We are actively driving structural reform of our assets including review of inventory assets and review of inventories with strategy change of HE business
- \* Overseas inventories decreased as a result of operating activities, and temporary non-operating losses did not expand as much as anticipated

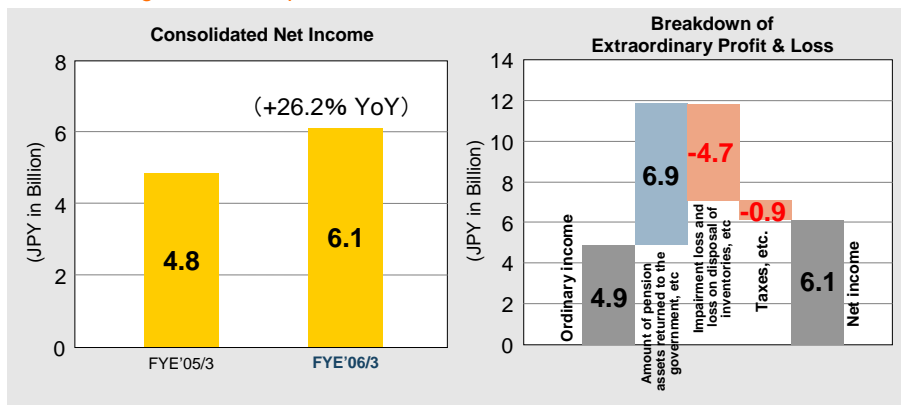


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## 2. Full Year Operating Results for FYE'06/3

### Consolidated Net Income

- \* Posted extraordinary profit on pension assets returned to the government and sales of investment securities
- \* Loss on former software as a result of strategy change in car navigation systems
- \* Posted impairment of fixed assets
- ▶ As a result of these factors, consolidated net income increased 26.2% to the second highest level in past.



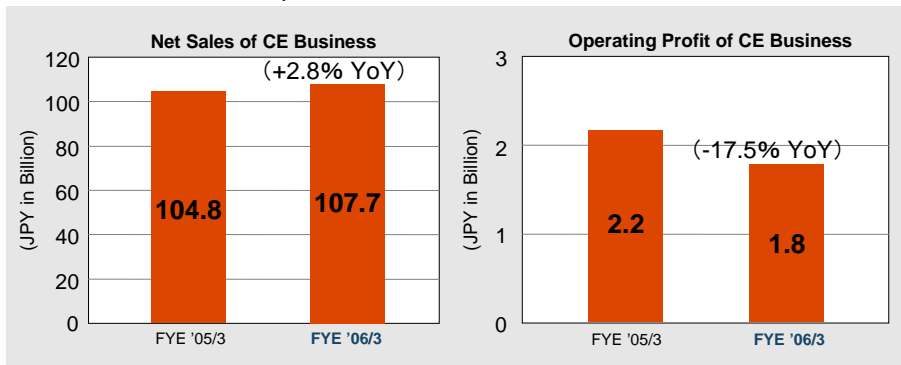
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## 2. Full Year Operating Results for FYE'06/3

### CE Business

**Net sales;** Sales expansion in the **OEM** offset the temporary fall in sales of **Consumer (Multimedia)** which resulted from the strategy change. **Consumer (Audio)** sales did not increase as much as anticipated due to the delayed closing of the overall market, but sales were better than the previous FY.

**Operating profit;** **Consumer (Audio)** fell short of the anticipated performance and did not quite cover **OEM's** increasing loss. **Consumer (Multimedia)** improved sharply as its strategy change paid off. The entire **Consumer** remained at roughly the same level as in the previous FY.



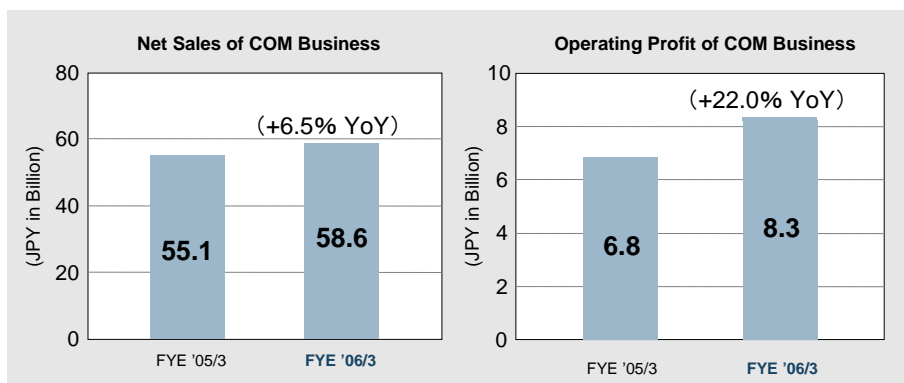
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## 2. Full Year Operating Results for FYE'06/3

### COM Business

**Net sales;** Expansion in the **wireless radio equipment**, attributable to favorable business conditions in the U.S., and higher sales in Europe and emerging markets, more than offset the reduced **sales in PDC (Personal Digital Cellular phone)**.

**Operating profit;** Increased sales in **wireless radio equipment** more than covered the reduced **sales in the PDC sales** and income-reducing factors such as developmental investments.



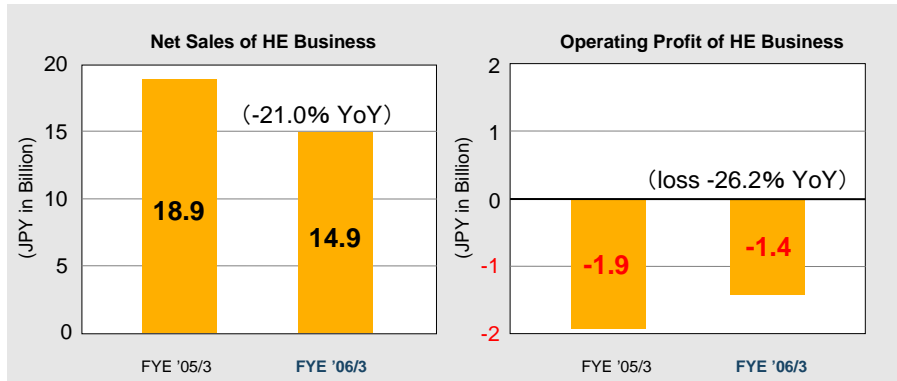
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## 2. Full Year Operating Results for FYE'06/3 HE Business

**Net sales;** Pure audio and portable audio performed favorably, but overall sales declined due to downsizing of the home theater attributable to a strategy change and contraction of the conventional-type audio market.

**Operating profit;** Although it was not possible to restore profitability due to contraction of the conventional-type audio market, operating loss shrank thanks to reduced fixed costs brought about by the strategy change.



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## 3. Management Strategies for FYE'06/3

- (1) Completing Reforms of Financial Base and Capital Structure
- (2) Promoting Growth Strategies and the Reforms of Profit Structure
- (3) Structural Reforms of the Subsidiaries
- (4) Promotion of Environmentally Sustainable Measures
- (5) Actions to Strengthen Product Design Capability in Three Major Locations

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### 3. Management Strategies for FYE'06/3

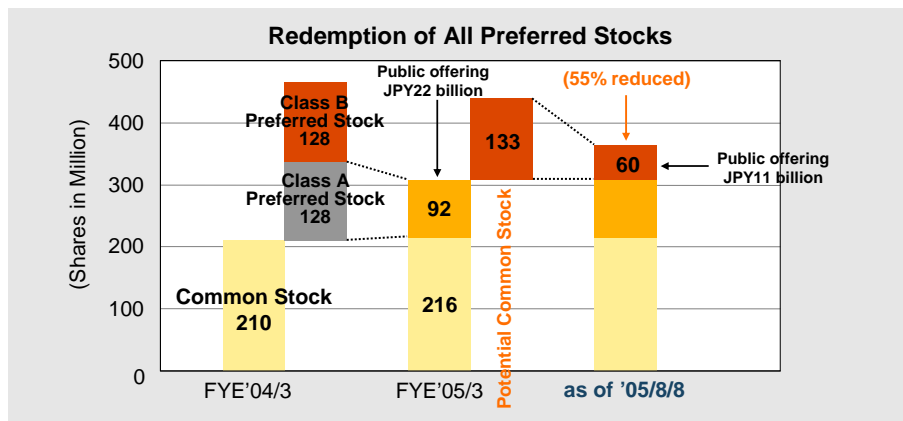
#### (1) Completing Reforms of Financial Base and Capital Structure

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### 3-(1) Completing Reforms of Financial Base and Capital Structure

**Elimination of All Negative Legacies; Japan's first redeeming all preferred stocks issued through DES**

Reduced 55% of the potential dilution impact by the potential common stock

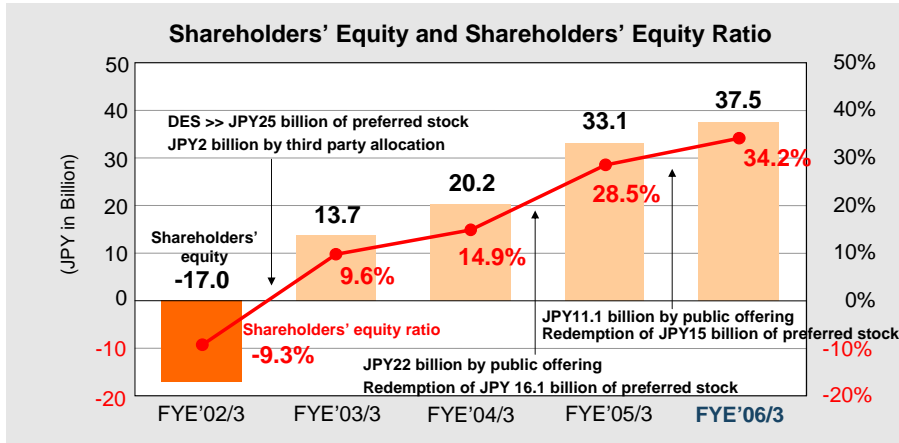


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## Financial Position - Improved Capital Structure

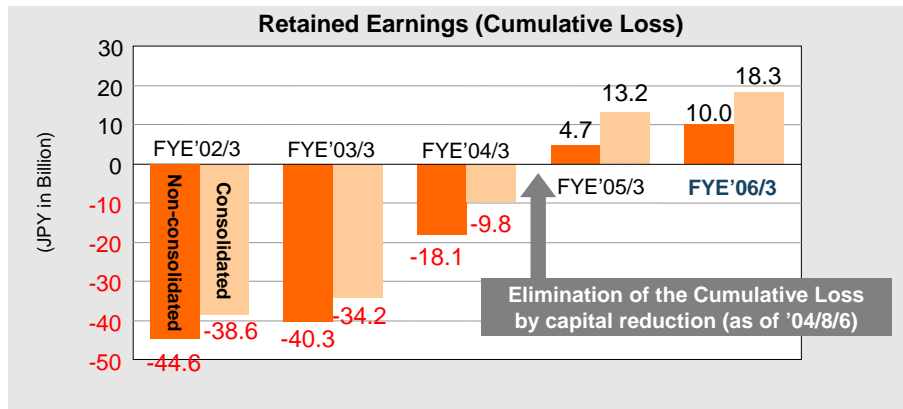
Shareholders' equity reached JPY37.5 billion including net income  
Shareholders' equity ratio reached 34.2%



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## Financial Position - Increase of Retained Earnings

Retained earnings, appropriated in the previous FY for the first time in 10 years, reached JPY18.3 billion.

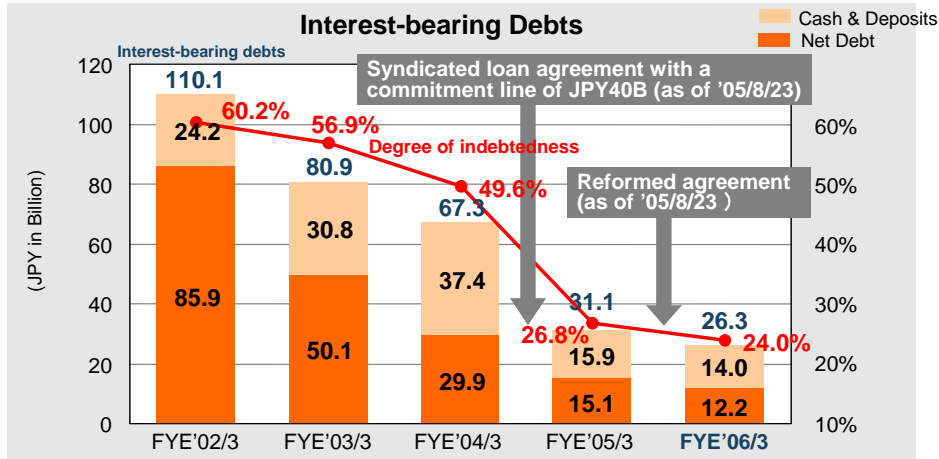


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## Financial Position

### Decrease of Interest-bearing Debts

Interest-bearing debt and net debt decreased, even though JPY4.0 billion was used to redeem Preferred Stock



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## Financial Position - B/S as of end of FYE'06/3

Completing reforms of financial base and capital structure; dramatic improvement of Balance Sheet

(JPY in Billion)

	FYE'02/3	FYE'03/3	FYE'04/3	FYE'05/3	FYE'06/3
Capital	25.9	39.5	39.5	14.9	11.1
Capital surplus	3.6	17.1	0.0	13.4	13.4
Retained earnings	-38.6	-34.2	-9.8	13.2	18.3
Shareholders' equity	-17.0	13.7	20.2	33.1	37.5
Total asset	182.9	142.1	135.8	116.1	109.6
Shareholders' equity ratio	-9.3%	9.6%	14.9%	28.5%	34.2%
ROE	-	-	-	-	* 21%
Interest-bearing debt	110.1	80.9	67.3	31.1	26.3
Net debt	85.9	50.1	29.9	15.1	12.2

\* ROE is calculated based on common shareholders' equity at the beginning of the fiscal year (excluding book value of preferred stock worth 12.5 billion yen from the shareholders' equity at the beginning of the fiscal year)

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### 3. Management Strategies for FYE'06/3

#### (2) Promoting the Growth Strategies and Reforms of Profit Structure

- (a) Growth Strategy and Profit Structure Reform by the Strategy Change of the CE Consumer (Multimedia) Business
- (b) Growth Strategy and Profit Structure Reform of the CE OEM Business
- (c) Reform of the HE Business

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#### 3-(2) Promoting the Growth Strategies and Reforms of Profit Structure

##### (a) Growth Strategy and Profit Structure Reform by the Strategy Change of the CE Consumer (Multimedia) Business

- \* Self-development of car navigation systems and upgrading/expansion of product lineups
- \* Reform of overseas business with new-concept products

Line-up of self-developed car navigation systems



New-concept navigation systems for overseas markets



HDD navigation system into dashboard  
Integrated AV function with high-quality sound

HDD navigation system mounted on dashboard  
Industry-first direct iPod connection  
First domestically to include Windows® Automotive Ver. 4.2



iPod is a registered trademark of Apple Computer, Inc. of the U.S.A.  
Windows® Automotive is a registered trademark of Microsoft Corporation of the U.S.A.

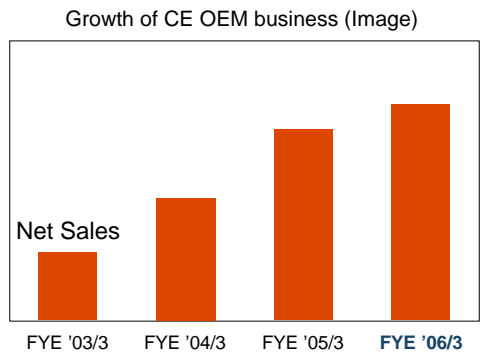
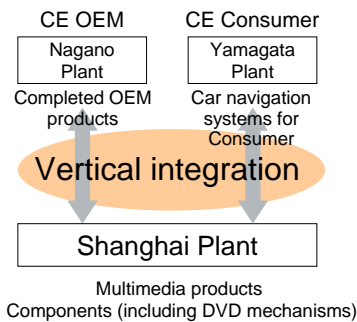
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### 3-(2) Promoting the Growth Strategies and Reforms of Profit Structure

#### (b) Growth Strategy and Profit Structure Reform of the CE OEM Business

- \* Enhancing production volume and cost competitiveness at Shanghai Plant by winning new orders and transferring production from domestic plant
- \* Improving competitiveness and enhancing growth strategy by improving productivity and sharply reducing process costs

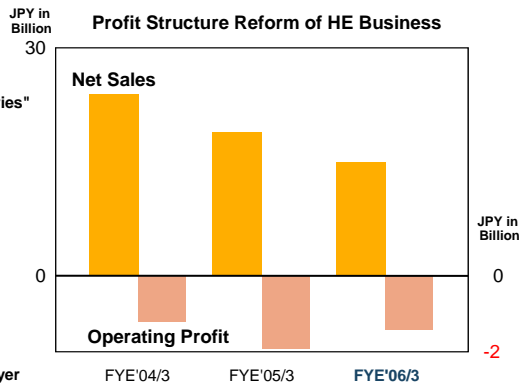


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### 3-(2) Promoting the Growth Strategies and Reforms of Profit Structure

#### (3) Reform of the HE Business

- \* Downsizing unprofitable overseas business (Home Theater)
- \* Product strategy taking advantage of Kenwood's high-quality sound technology and diffusion of digital media



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### 3-(3) Structural Reforms of the Subsidiaries

#### Completed Structural Reforms of the Subsidiaries

##### Americas: Completed reforms on financial base and capital structures by the capital reinforcement

- \* Carrying out debt-for-equity swap at the US sales subsidiary
- \* Closing US outlet sales companies
- \* Reforming HE business
- \* Established the Americas Headquarters headed by the US sales subsidiary

##### Europe: Eliminate past “Negative Legacy” on consolidated base as well

- \* Eliminated the cumulative losses by the capital increase and capital reduction at sales subsidiaries in Belgium and the Netherlands

### 3-(4) Promotion of Environmentally Sustainable Measures

- \* Promoted the introduction of lead-free solders in each business
- \* Promoted compliance to all guidelines regarding environmental substances in all of our production processes, starting with the procurement of parts and components.
  - ▶ Preparing for complete compliance to RoHS instructions\* in the European Union
- \* Improved our infrastructure to respond to the WEEE instructions\* related to the product recycling regulations that are being promoted in Europe.

\* RoHS instruction: This is an abbreviation of the Restrictions on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment, which is being implemented by the European Union. This law regulates the use of harmful and toxic substances in electrical and electronics equipment products. The use of six substance groups consisting of lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyl (PBB) and polybrominated biphenyl ether (PBDE) will be regulated for products sold in the 15 member nations of the European Union starting on July 1, 2006.

\* WEEE instructions: WEEE is an abbreviation of Waste Electrical and Electronic Equipment, and these instructions are recycling instructions for scrapped electrical and electronic equipment.

### **3-(5) Actions to Strengthen Product Design Capability in Three Major Locations**

- \* We have commenced initiatives for product design development through tripolar bases including Los Angeles and Paris.**

Given a new and global perspective, we will create design value that can offer creating product design value that can provide customers with the enjoyment of life.

- \* We have commenced industry-university joint research initiatives.**

Tama Art University in Japan; ENSCI (Paris), a French national art university.

## **4. Full Year Outlook for FYE'07/3**



## 4. Full Year Outlook for FYE'07/3

### Consolidated Profit & Loss

**Net Sales;** We anticipate sales of **CE OEM** to steadily increase, and **CE Consumer (Multimedia)** is expected to expand. This sales increase offset the effects of structural reforms of **HE**, and we forecast consolidated sales of JPY185 billion.

**Operating Profit;** We make investments in strategic development amounting to JPY4 billion in FYE'07/3. And overall we forecast a consolidated operating profit of JPY9 billion, which is higher than the performance in FYE'06/3.

**Ordinary Income;** We forecast a consolidated ordinary income to increase to JPY6 billion from FYE'06/3, because we completed the structural reforms of assets.

**Net Income;** The extraordinary income is normalized in FYE'07/3, we expect consolidated net income to fall to JPY5 billion from FYE'06/3.

#### Consolidated PL

(JPY in Billion)

	FYE'05/3		FYE'06/3		FYE'07/3 Forecast		YoY	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net Sales	181.1		183.6		185.0		1.4	100.8%
Operating Profit	7.1	3.9%	8.7	4.7%	9.0	4.9%	0.3	103.6%
Ordinary Income	4.7	2.6%	4.9	2.7%	6.0	3.2%	1.1	122.8%
Net Income	4.8	2.7%	6.1	3.3%	5.0	2.7%	-1.1	81.9%

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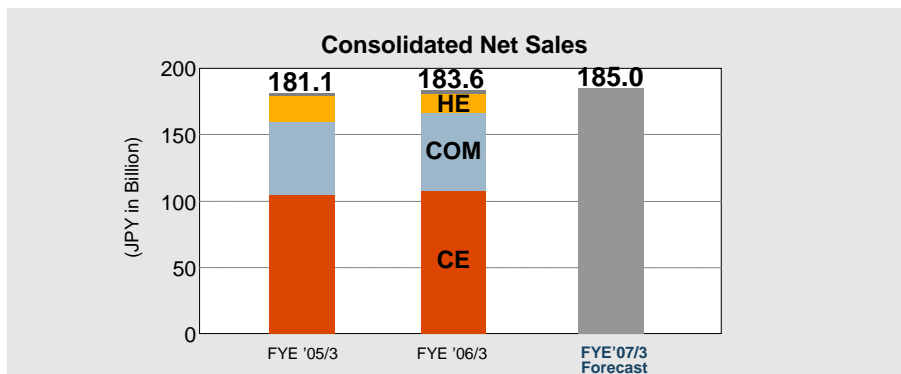
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## 4. Full Year Outlook for FYE'07/3

### Consolidated Net Sales

- \* Sales of **CE OEM** to steadily increase as a result of up-front investments.
- \* **CE Consumer (Multimedia)** is expected to expand as a result of completed strategy change.
- \* This sales increase offset the effects of structural reforms of **HE**, and we forecast consolidated sales of JPY185 billion.



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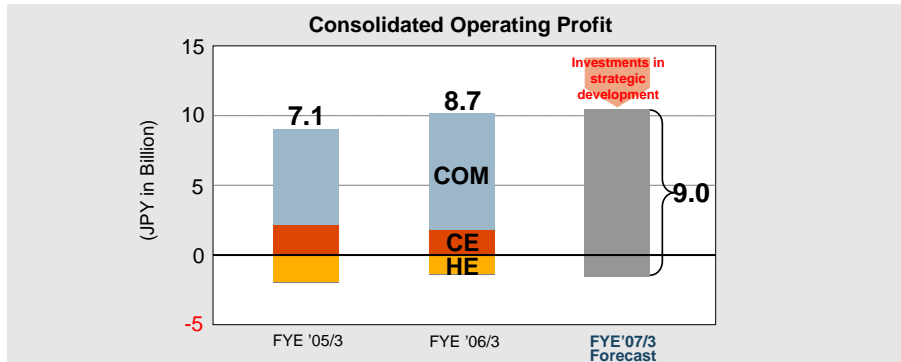
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## 4. Full Year Outlook for FYE'07/3

### Consolidated Operating Profit

\* The Company plans to make investments in strategic development of new technologies and new products amounting to JPY4 billion in FYE'07/3.

\* The majority of these investments will be factors causing income to fall for the FYE'07/3, but improved revenues of **CE** and **HE** will be able to cover them, and overall we forecast a consolidated operating profit of JPY9 billion, which is higher than the performance in FYE'06/3.



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## 5. Management Strategies for FYE'07/3

- (1) Improving Competitiveness in Businesses
- (2) Business and Capital Investments
- (3) 60th Anniversary Campaign

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## 5. Management Strategies for FYE'07/3

### (1) Improving Competitiveness in Businesses

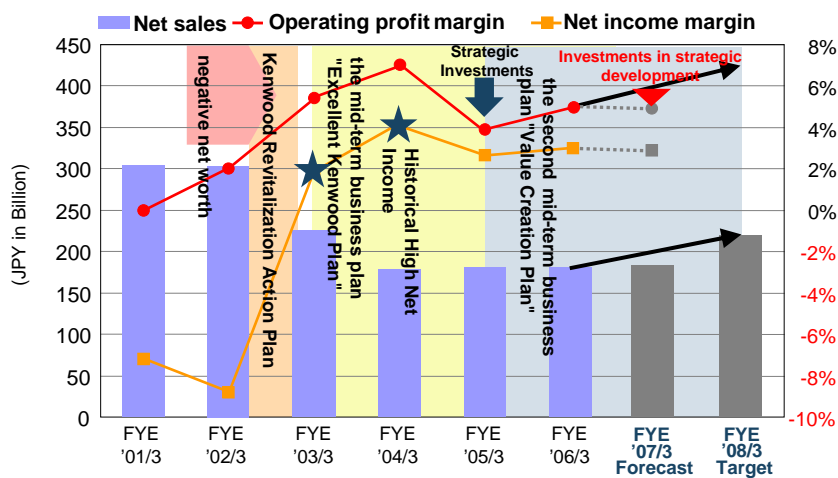
(a) Investments in Strategic Development

(b) Strengthening Cost Competitiveness

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### 5-(1) Improving Competitiveness in Businesses (a) Investments in Strategic Development

Through the Investments in strategic development in addition to R&D activities each year, we aim at reaching the goal of "Value Creation Plan"



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## 5-(1) Improving Competitiveness in Businesses

### (a) Investments in Strategic Development

#### CE Consumer (Multimedia) business

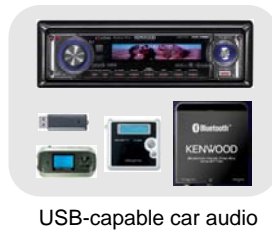
- \* Development and commercialization of global navigation cores
- \* Development and application of mobile terrestrial digital tuners including one-segment broadcasting

#### CE Consumer (Audio) business

- \* Full-scale distribution of new car audio products in 2006 for consumer market
- \* Exploration of and sales enhancement in emerging markets including BRICs

#### CE OEM business

- \* Winning new orders
- \* Increasing Shanghai Plant's production of CE-use components and transferring production from domestic plant



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## 5-(1) Improving Competitiveness in Businesses

### (a) Investments in Strategic Development

#### COM business

- \* Reinforcement of business base for analog wireless radio equipment
- \* Full-scale development of digital wireless radio equipment
- \* Development of digital network systems



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## 5-(1) Improving Competitiveness in Businesses

### (a) Investments in Strategic Development

#### HE business

- \* Conversion by HE and CE of seamless entertainment into tangible forms
- \* Shift from mass-sales models to high value-added models

Pure audio system "Kseries"



#### High value-added models and Sound Meister Edition

Home Theater system



Portable HDD audio player "Media Keg"



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## 5-(1) Improving Competitiveness in Businesses

### (b) Strengthening Cost Competitiveness

#### Reducing processing costs at plants in France and Shanghai, and strengthening global procurement functions

- \* "Production Innovation" that was a significant success with regard to the reforms on profitability, and realized a significant reduction in processing costs at plants in France and Shanghai, as well as in domestic plants in Yamagata and Nagano.
- \* The Company also reinforced IPO (International Procurement Office) functions of the Shanghai and Singapore Plants, and newly established an IPO in Hong Kong, in order to strengthen global procurement functions.



French Plant



Shanghai Plant

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## 5-(2) Business and Capital Investments

\* The Company made investments in the construction of a test course with various road surfaces, and it will purchase neighboring land (approximately 12,800m<sup>2</sup>), establish experiment, research and customer service facilities, and improve environments for employees' activities



Nagano Plant



Neighboring land of Nagano Plant



Test course with various road surfaces

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## 5-(3) 60th Anniversary Campaign

**Strengthening brand presence and business promotions through a campaign based around the Company's 60<sup>th</sup> Anniversary**

Developing brand strategies and business promotions globally as part of our 60<sup>th</sup> anniversary campaign through December 2006

**KENWOOD**  
Listen to the Future



Kenwood - Making history since 1946

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Listen to the Future